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Fuel Focus

Understanding Gasoline Markets in Canada and Economic Drivers Influencing Prices

Volume 7, Issue 17

September 7, 2012

Canada

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National Overview

Average Canadian Retail Gasoline Price Increases by less than 1 Cent per Litre from Last Week

Canadian retail pump prices, for the week ending September 4, 2012, increased by less than 1 cent per litre to reach $1.31 per litre. Retail gasoline prices have, on average, increased by 2 cents per litre from this time last year.

Diesel fuel and furnace oil prices barely deviated from their positions last week, resting at $1.26 and $1.17, respectively. However, diesel prices are more than 2 cents per litre higher from the same period last year, while furnace oil prices are 4 cents per litre higher.

Figure 1: Crude Oil and Regular Gasoline Price Comparison (National Average)

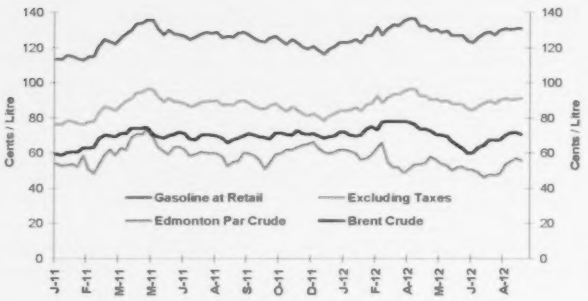
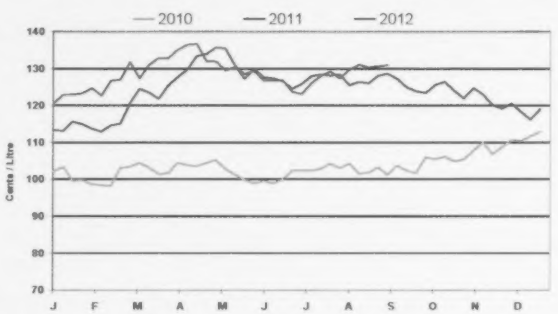


Figure 2: Weekly Regular Gasoline Prices



Recent Developments

- **Increase in Domestic Gasoline Sales:** Motor gasoline sales increased nearly 8% to 19 billion litres in the first five months of 2012 compared to the same period in 2011. Since the beginning of the year, gasoline sales have remained consistently above those of the last five years. Diesel fuel sales rose 3% to 12 billion litres, while light fuel oil (furnace oil) decreased 14% to 1.5 billion litres in the same time period. (Source: NRCan and Statistics Canada)
- **Inflation Up 1.3% in July 2012:** Consumer prices rose 1.3% in the 12 months to July, following a 1.5% gain in June. Higher prices for the purchase of passenger vehicles, food purchased from restaurants, meat and electricity were major factors in the increase of the July Consumer Price Index (CPI). Gasoline prices fell 1.3% in the 12 months to July, the third consecutive year-over-year decline. Prices for gasoline decreased in the Atlantic Provinces, Ontario and Quebec, while they rose in the Western provinces. (Source: Statistics Canada, The Daily. http://www.statcan.gc.ca/daily-quotidien/120817/dq120817a-eng.htm).
- **Gulf Coast recovering from Hurricane Isaac:** Operators are returning to Gulf of Mexico oil and gas platforms and rigs to restore operations following Hurricane Isaac, the US Bureau of Safety and Environmental Enforcement reported. As of Sept. 3, 804,335 b/d, or 58.29%, of the gulf's crude oil production and 1,737.8 MMcf/d, or 38.62%, of its gas production remained shut in, the US Department of the Interior agency said. (Source: Oil and Gas Journal)

Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2012-09-04	Previous Week	Last Year
Gasoline	130.9	+0.2	+2.3
Diesel	126.1	-0.1	+2.3
Furnace Oil	117.2	+0.2	+4.1

Source: NRCan

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Retail Gasoline Overview

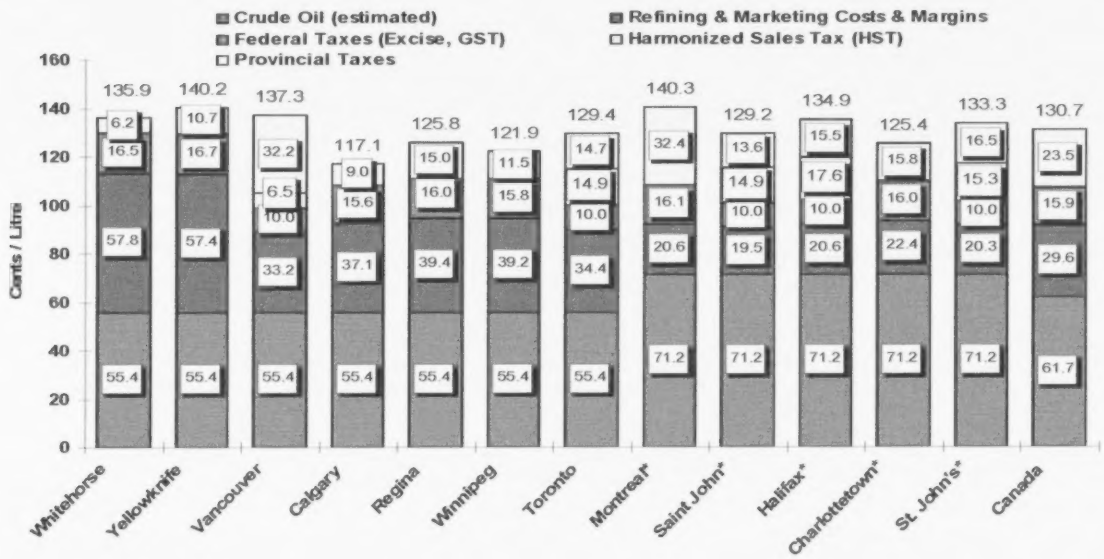
The **four-week average** Canadian pump price in selected cities for the week ending September 4, 2012, was $1.31 per litre—an increase of 1 cent per litre from the last report on August 24, 2012. This represents a 3 cent-per-litre increase compared to the same period in 2011.

Compared to two weeks ago, the **four-week average** crude oil price increased by 3 cents per litre and settled at 62 cents per litre.

On average, retail gasoline prices in Eastern centres rose by 3 cents per litre compared to the last report two weeks ago. Prices ranged from $1.25 to $1.40 per litre. Prices in Western centres increased, on average, by less than 1 cent per litre and ranged from $1.17 to $1.37 per litre.

At the national level, refining and marketing costs declined by 2 cents per litre from the previous report of two weeks ago to 30 cents per litre.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (August 14 to September 4, 2012)



Source: NRCan

** Regulated Markets*

United States Finalizes 54.5 mpg Fuel Efficiency Standards

On August 28, 2012, the U.S. Department of Transportation (DOT) and the U.S. Environmental Protection Agency (EPA) finalized standards that will increase fuel economy to the equivalent of 54.5 mpg for cars and light-duty trucks by Model Year 2025. When combined with previous standards, this move will nearly double the fuel efficiency of those vehicles compared to new vehicles currently on the roads.

The program includes targeted incentives to encourage early adoption and introduction into the marketplace of advanced technologies to dramatically improve vehicle performance, including:

- Incentives for electric vehicles, plug-in hybrid electric vehicles, and fuel cells vehicles;
- Incentives for hybrid technologies for large pickups and for other technologies that achieve high fuel economy levels on large pickups;
- Incentives for natural gas vehicles; and
- Credits for technologies with potential to achieve real-world greenhouse gas reductions and fuel economy improvements that are not captured by the standards test procedures.

Source: US Environmental Protection Agency,
http://yosemite.epa.gov/opa/admpress.nsf/bd4379032ceccea8525735900400c27/c3f44fb4e2e2d39d8525796800 5d0154!OpenDocument

Wholesale Gasoline Prices

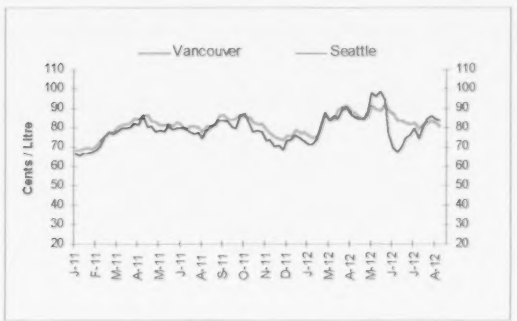
Wholesale gasoline prices increased in 7 of 10 selected Canadian and American centres for the week **ending August 30, 2012**.

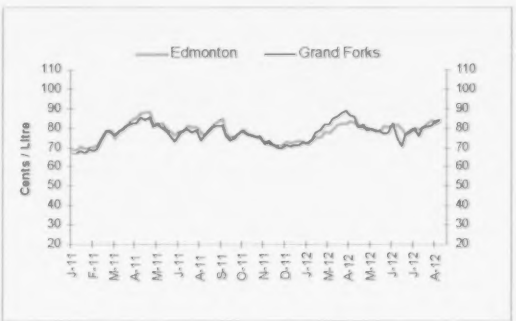
Wholesale gasoline price changes from the week of August 23, 2012 ranged from an increase of more than 3 cents per litre to a decrease of 2 cents per litre. Prices ended the period in the 81 to 86 cent-per-litre range.

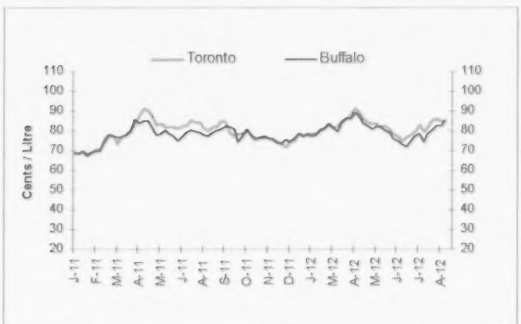
In the Eastern markets of Canada and the U.S., wholesale gasoline prices ranged from 82 cents per litre to 86 cents per litre. Price changes ranged from an increase of 3 cents per litre to a decrease of less than 1 cent per litre.

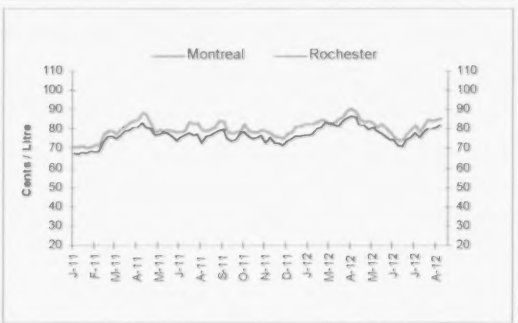
Wholesale gasoline prices changes in the Western centres varied from an increase of less than 1 cent per litre to a decrease of 2 cents per litre, ending in the range of 81 to 84 cents per litre.

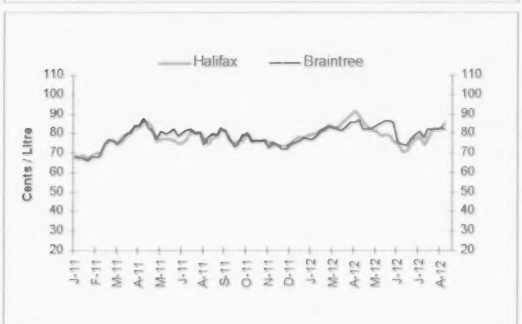
Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending August 30, 2012
(Can ¢/L)











Sources: NRCan, Bloomberg Oil Buyers Guide

Canada's natural resource wealth, 2011

In 2011, the value of Canada's natural resource assets stood at $1.4 trillion, a 16% increase from 2010. Energy resources accounted for 63% of the value of all natural resource assets in 2011, followed by minerals (26%) and timber (11%).

Energy resource assets consist of coal, crude bitumen, crude oil and natural gas. In total, the value of these assets increased 17% to $879 billion in 2011, fuelled by continued growth in prices.
Source: Statistics Canada, The Daily: http://www.statcan.gc.ca/daily-quotidien/120906/dq120906a-eng.htm)

Gasoline Refining and Marketing Margins

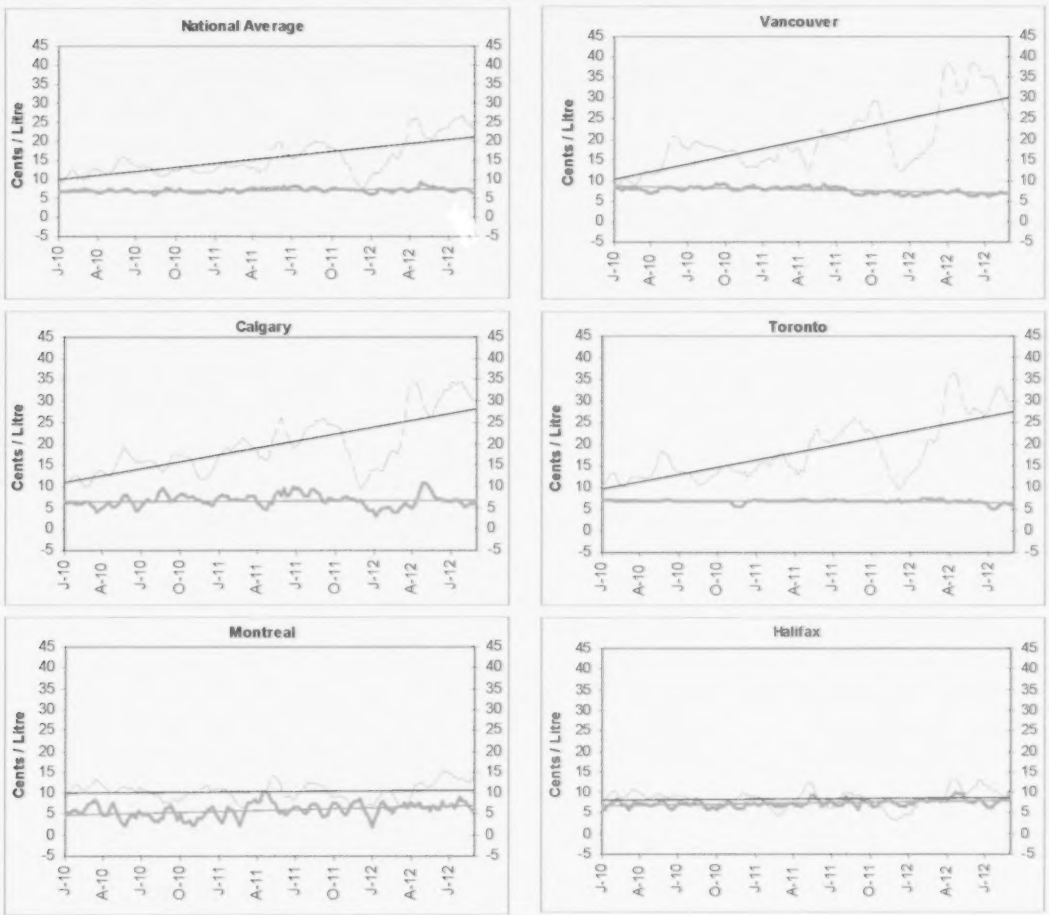
Four-week rolling averages are used for the gasoline refining and marketing margins.

These refining margins refer to the difference between the cost of the crude oil and the wholesale price at which a refiner can sell gasoline. The margin includes the costs associated with refining the product as well as a profit for the refiner. Nationally, refining margins are averaging at just under 23 cents per litre, about 3 cents per litre higher than at this time last year.

Overall, marketing margins hovered around 6.5 cents per litre. Marketing margins have to cover the costs associated with operating an outlet and generating a profit for the station owner.

These margins can vary significantly depending on the region, volume sold, and availability of other product offerings. Most of the costs of operating an outlet are fixed and do not decline with lower gasoline prices.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending September 4, 2012
------- Refining Margin ——— Marketing Margin



Source: NRCan

Crude Oil Overview

Crude Oil Prices Drop

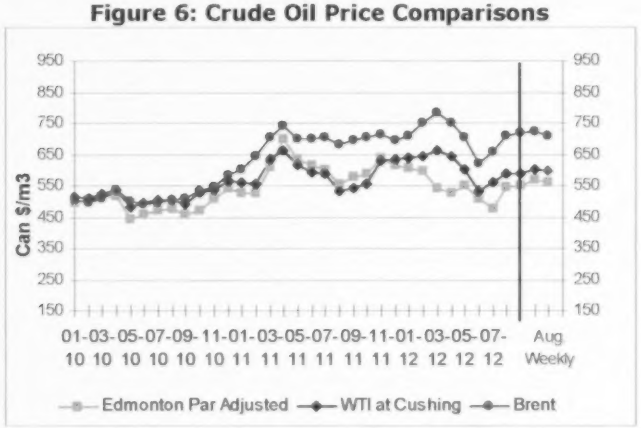
For the week ending August 31, 2012, prices for the three marker crudes averaged between $562/m³ and $708/m³, (US$90 to US$114 per barrel). Each of the marker crudes decreased in price compared to last week, with decreases ranging from $5 to 13/m³ (US$1 to US$2 per barrel).

The crude oil price differential between WTI and Brent stood at $113/m³ ($US18 per barrel) for the week under review, well below the $130/m³ ($US21 per barrel) reported in the previous fuel focus report. For the week ending August 31, 2012, the price differential between Edmonton Par and WTI further narrowed, to $33/m³ ($US5 per barrel)

Hurricane Isaac hit the Gulf Coast during the last week of August, partially flooding the Alliance refinery in Louisiana, and temporarily reducing demand for crude oil. However, since most damage from the storm was minimal, overall market impacts may be moderate. Experts predict that it should only take a few days to restore overall offshore oil production in the Gulf Coast.

A late August fire at Venezuela's largest refinery could impact fuel prices, but since the fire was contained to the storage tanks, and not the production units, the overall impacts may be minimal.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2012-08-31		Change From:			
			Previous Week		Last Year	
	$Can/m³	$US/bbl	$Can/m³	$US/bbl	$Can/m³	$US/bbl
Edmonton Par	561.57	90.33	-5.33	-0.65	-30.23	-5.83
WTI	594.81	95.68	-4.82	-0.56	+52.77	+7.6
Brent	708.10	113.90	-12.65	-1.77	+9.21	+0.34

Source: NRCan

US Department of Energy Announces Emergency Oil Loan

The US Energy Department agreed to lend 1 million barrels of sweet crude oil from the Strategic Petroleum Reserve's (SPR) Bayou Choctaw site in Louisiana to address the short term impact on Marathon Petroleum Company's refining capacity caused by Hurricane Isaac, which is resulting in limited crude oil shortages.

The loan, which is distinct from a release from the SPR, will be provided to Marathon Petroleum Company under short-term contractual agreements. Under the agreement, Marathon Petroleum Company will return an equal amount of similar quality oil to the Reserve within three months, plus premium barrels, which is similar to interest.

The Energy Policy and Conservation Act empowers the Energy Department to make loans of crude oil. The Department has used this authority to address short-term, emergency supply disruptions on eight previous occasions, most recently following Hurricane Gustav in 2008.
(Source : US DOE)
http://energy.gov/articles/energy-department-announces-emergency-oil-loan-response-hurricane-isaac-related-request